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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

NFAC-4685-78  
24 October 1978

MEMORANDUM FOR: Director of Central Intelligence

THROUGH : Director, National Foreign Assessment Center  
National Intelligence Officer for Warning

FROM : Acting National Intelligence Officer for Latin America

SUBJECT : Latin America -- Warning of Impending Developments

1. Action Requested: None; for your information only.

2. Background: The convergence of severe economic, social, and political problems suggest that political turmoil will characterize the nations of Central America over the next 60 to 90 days. Challenges to government stability will be particularly strong in Nicaragua, where the FSLN plans to launch another guerrilla attack from Honduras and Costa Rica with logistic support from Venezuela and Panama. In preparation for this attack, President Somoza is doubling his National Guard, but the loyalty of new recruits and their military capacity is questionable. We should anticipate that Somoza might call on the OAS to protect his country from military incursions from his neighbors -- a step which could place the US in the awkward position of voting in the OAS to protect Somoza.

3. The Nicaraguan situation is causing consternation in El Salvador, where the stability of the government is precarious. This tiny, over-populated country is next to the poorest in Latin America. Demographic problems create pressures difficult to contain. There are currently 205 persons per square kilometer in El Salvador compared to 25 elsewhere in Central America, and 12 elsewhere in Latin America. With its current birthrate of 2.9% per annum, the population density will increase to 297 by 1990. Terrorism has been on the upswing for the last two to three years with political figures and the prominent families which control the economy the prime targets. There are indications that some of the prominent families are preparing to abandon the country with as much of their wealth as they can muster unless outside help can be obtained to control terrorism. 25X1

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4. Elsewhere in Latin America there is a potential for conflict between Argentina and Chile over the Beagle Channel despite the negotiations in train. Intelligence has revealed Argentine military movements in the vicinity of the Chilean border. While this may be an Argentine tactic to intimidate Chile, it could result in frontier clashes and possibly in Argentine occupation of the contested islands in the Beagle Channel. While these islands are of no strategic importance to the US and US national interests are not directly affected, the US could become involved in restoring peace to the area.

5. Finally, the economic situation continues to deteriorate in Peru, and there is some possibility Peru will default on its IMF commitments. Peru is not quite poor enough to benefit from low-interest loans available to the poorest nations, but its per capita income is rapidly descending to that point. In 1976 the per capita income was \$800. A year later it was \$740. By this year it dropped to \$680. At this rate it will cross the poverty line of \$580 by August 1979, or possibly even before because of the drought. Only at this point will Peru be able to apply for low-interest loans. Peru's grave economic condition will prevent that country from embarking on a military adventure in Chile, should there be a conflict between Chile and Argentina.

6. The above judgements are made as a result of consultations on 19 October 1978 with the "Latinos", the senior intelligence analysts and collectors in the intelligence community who specialize in Latin America.

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